

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

*Before:*

Chairman Gleiman, Vice Chairman LeBlanc,  
Commissioners Covington, Goldway, and Omas

Classification and Fees for Weight-Averaged  
Nonletter-Size Business Reply Mail

Docket No. MC99-2

OPINION AND RECOMMENDED DECISION

APPROVING

STIPULATION AND AGREEMENT



Washington, DC 20268-0001  
July 14, 1999

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### RECOMMENDED DECISION

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## I. INTRODUCTION AND SUMMARY

The Commission adopts a stipulation and agreement ("settlement agreement") as the basis for its opinion and recommended decision on the Postal Service's Docket No. MC99-2 request for a permanent classification and fees for certain weight-averaged nonletter-size Business Reply Mail (BRM). The settlement agreement gained the unanimous support of all full participants and one limited participant. No participant opposed it.

The terms of the Commission's recommendation are identical to the Service's request. They establish the weight averaging method of accounting as a permanent option for recipients of eligible nonletter-size BRM, with a service fee of 1 cent for each returned piece and a flat monthly accounting fee of \$600. As with the existing manual method of accounting, recipients must also pay applicable postage.

BRM flats and parcels, as well as BRM letters weighing more than two ounces, are eligible for the new classification, assuming recipients maintain an advance deposit account, pay an annual permit fee, and comply with other Postal Service regulations. There are no minimum volume requirements, but the Service anticipates that the financial benefits of the new method will accrue primarily to recipients with annual volume (in terms of returned pieces) of more than 100,000 nonletter-size BRM pieces.

This decision, if approved by the Governors, completes Commission action in a series of cases that began with the Service's request to conduct an experiment testing weight averaging and reverse manifesting as alternatives to its standard practice of accounting for nonletter-size BRM on a manual, or piece-by-piece, basis.<sup>1</sup> *Weight averaging* entails weighing and rating eligible BRM in bulk (at postal facilities), using

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<sup>1</sup> The underlying experiment was originally authorized for two years (from June 8, 1997 through June 7, 1999). The weight averaging experiment is now in a second, and temporary, phase. The reverse manifesting method expired June 7, 1999.

statistically valid methods to determine applicable postage and fees. These methods, executed through a software program, include postage-per-piece and postage-per-pound conversion factors, and thereby eliminate the need for manual counting, rating and billing. *Reverse manifesting* relies on the BRM recipient to generate an incoming mail manifest (at its own site) and to calculate postage and fees, subject to Postal Service audit.

The record indicates that reverse manifesting is not a feasible option at this time, given difficulties that arose while testing this method and potential problems with marketing it. At the same time, the record shows that weight averaging, relative to manual accounting, substantially reduces postal costs and expedites the release of nonletter-size BRM to intended recipients. Accordingly, the Service has appropriately narrowed the scope of the classification by eliminating reverse manifesting as an accounting option. It also has realigned the weight averaging fee structure by eliminating the setup fee charged during the original experiment and significantly reducing the per-piece service fee and the monthly accounting fee.

*Fee comparison.* As shown in the following table, the fee structure and fees recommended in this case for qualifying weight-averaged nonletter-size BRM differ from those in the original experiment. These differences are mainly due to the results of the Service's analysis of costs collected during the experiment and related decisions, such as the adoption of a revised (and less costly) sampling method.

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**Table 1**  
**Comparison of Various Fees for Nonletter-Size BRM**  
**(Assuming Use of an Advance Deposit Account)**

	<b>Classification</b>	<b>Service Fee</b>	<b>Monthly Fee</b>	<b>Setup Fee</b>
A.	Qualified BRM (QBRM)	\$0.05	None	None
	Other BRM (Docket No. R97-1)	\$0.08	None	None
B.	Original Experiment (Docket No. MC97-1)			
	1. Reverse Manifesting	\$0.02	\$1000	\$3000
	2. Weight Averaging	\$0.03	\$3000	\$3000
C.	Extended Phase (Docket No. MC99-1)			
	1. Reverse Manifesting	n/a	n/a	n/a
	2. Weight Averaging			
	Requested	\$0.04	\$3000	\$3000
	<b>Recommended</b>	<b>\$0.01</b>	<b>\$600</b>	<b>None</b>
D.	Permanent Weight Averaged BRM (Docket No. MC99-2)			
	<b>Requested/Recommended</b>	<b>\$0.01</b>	<b>\$600</b>	<b>None</b>

*Source:* Adapted from USPS-T-4 at 14 (Table 1) and PRC Ops. MC99-1 and R97-1

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The three cases in this series have demonstrated the productive use to which the Commission rules authorizing experiments and encouraging settlements can be put. This success is largely due to the sustained efforts of the Postal Service, the OCA, and other participants throughout the course of these proceedings. Their cooperation has materially contributed to making the benefits of the more efficient, cost-effective weight averaging accounting method available to qualifying recipients much sooner than might otherwise have occurred. The Commission welcomes this development, and continues

to urge Postal Service management and interested mailers to address ways of making similar efficiencies and lower rates available to other BRM recipients.

## II. BACKGROUND

### A. Procedural History

On March 10, 1999, the Postal Service filed two companion requests with the Commission. The requests followed up on an earlier docket (No. MC97-1), which had authorized a two-year experiment with the weight averaging and reverse manifesting methods of accounting. During the experiment the fee structure included an initial setup fee, a monthly accounting fee, and a per-piece service fee. However, the fees for reverse manifesting were lower, given the Service's expectation that the costs associated with this method would be less than those of weight averaging. One of the requests (Docket No. MC99-1) sought a temporary extension of authority to offer the weight averaging option, and was accompanied by a proposed stipulation and agreement with fees identical to those charged during the original experiment. The other request (Docket No. MC99-2) sought to establish weight averaging on a permanent basis, but proposed a different set of fees. This included the elimination of the setup fee and reductions in the service and monthly accounting fees.

In PRC Op. MC99-1, the Commission recommended the requested extension, based on a revised stipulation and agreement that conformed fees during the experiment's extended phase to the set requested in Docket No. MC99-2. The Governors approved the Commission's recommendation, thereby allowing the Service to continue the weight averaging experiment until implementation of the fees recommended in this docket or February 29, 1999, whichever occurs first. The Service has not sought an extension or permanent status for reverse manifesting; therefore, by

operation of the terms of Docket No. MC97-1, authority to offer this option expired June 7, 1999.

The Service's Docket No. MC99-2 filing included attachments, the testimony of four witnesses, and procedural motions. Witness Shields (USPS-T-1) describes the manual accounting method the Service traditionally has used to assess postage and fees for nonletter-size BRM. She also discusses implementation of the weight-averaging experiment at the Washington, DC site and identifies related benefits. Witness Ellard (USPS-T-2) addresses the design, execution and results of a marketing study the Service commissioned to determine the level of interest in the alternative accounting methods and fees. Witness Schenk (USPS-T-3) analyzes the costs of counting, rating, and billing nonletter-size BRM under the weight averaging method. She also describes the data collection effort, the special cost study, and the software program used in the weight averaging method.

Witness Kiefer (USPS-T-4) provides a comprehensive assessment of the underlying experiment and proposes the permanent classification (and fees) for weight-averaged nonletter-size BRM. He also addresses the consistency of the Service's proposal with 39 U.S.C. §§ 3623(c) and 3622(b). His conclusions and proposals draw extensively on the testimony of the other Service's other witnesses in this docket, especially witness Schenk's recommendations.

The procedural motions accompanying the Docket No. MC99-2 filing sought waiver of certain filing requirements and protective conditions for witness Schenk's workpaper 1. Postal Service Motion for Waiver of Certain Filing Requirements Incorporated in the Commission's Rules of Practice and Procedure and Postal Service Motion Requesting Protective Conditions for Workpaper 1 of Witness Leslie Schenk (both filed March 10, 1999).

In Order No. 1233 (issued March 16, 1999 and published at 64 FR 13613-13617), the Commission provided notice of the Service's concurrent filings and, among

other things, established April 5, 1999 as the deadline for intervention and responses to the Service's motions. The motions were subsequently granted. See P.O. Ruling Nos. 1, 2 and 3, issued March 29, 1999, April 14, 1999, and May 18, 1999 respectively.

One information request was issued. This concerned the status of Postal Service efforts to extend the weight-averaging option to recipients of types of BRM pieces not included in this case. Presiding Officer's Information Request No. 1 (issued June 3, 1999). The Postal Service's response addressed a number of considerations related to the feasibility of weight averaging for letter-size BRM. It generally indicated that the Service believed other options held more promise as a solution for recipients of these pieces, and indicated that postal management was reviewing these possibilities. Response of the United States Postal Service to Presiding Officer's Information Request (June 18, 1999).

A prehearing conference was held in conjunction with Docket No. MC99-1 on April 6, 1999. A technical conference on witness Schenk's testimony was held on April 20, 1999. A motion for consideration of a settlement agreement was filed by the Postal Service on June 1, 1999. The Commission provided notice of the Service's action in Order No. 1250 (issued June 3, 1999). The record was closed on July 14, 1999.

#### B. Implementation of the Original Experiment

The Service's filing indicates that four BRM recipients, all in the film processing industry, participated in the underlying experiment.<sup>2</sup> Three opted for the weight averaging method, which was implemented at post offices in Seattle, WA, New London, CT, and Washington, DC. One, located in Parkersburg, WV, chose the reverse

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<sup>2</sup> The maximum number of participants had been set at 20, with no more than ten for each method, and there was no restriction to any one industry. USPS-T-4 at 3.



manifesting method. USPS-T-4 at 6. This participant later withdrew, due to its acquisition by a company participating in the weight averaging test.

The filing also confirms that the Service, in accordance with the terms of PRC Op. MC97-1, developed a formal data collection to gather operational, cost and marketing data. Id. at 3. Related decisions included selection of a target precision level (for both methods) of  $\pm 1.5$  percent of annual revenue estimates; selection of a sack sampling standard (for the weight averaging methodology) of 20 sacks per accounting period; and development of software for the weight averaging method.

#### C. Experimental Workload

Postal Service witness Shields reviews the daily and periodic activities associated with the weight averaging experiment at the Washington, DC site. She says she believes these were identical to those performed at the other sites. According to her testimony, daily activities include isolating qualifying BRM pieces from the mailstream upon arrival at the postal facility, re-sacking them, and weighing the sacks on a scale. Distribution clerks then enter the weight in a manual log and load the sacks for dispatch to the participant. The weight recorded for each sack, as noted on the log sheet, is subsequently keyed into a computer, and a special software program applies a conversion factor (postage-per-pound) to the net weight to calculate applicable postage and fees. The final steps entail sending a copy of the itemized postage due bill by facsimile to the local film processor participating in the experiment and deducting postage and fees from the advance deposit account. USPS-T-1 at 3-4.

Shields says the periodic set of activities, performed once every accounting period during the "sample week" that is randomly designated by the software program, include attaching identification labels to the sample sacks (pursuant to a prompt by the software) and individually weighing each piece in the designated sample sack using an electronic scale linked to the computer. She says the piece weights from all of the

sample sacks are used to automatically calculate updated conversion factors, which are used until the next conversion factors are calculated. Id. at 4-5.

*Benefits.* Witness Shields estimates that the weight averaging method generates labor savings of four person-days each day. She also says it promotes better customer service because the recipient is able to obtain its mail earlier each day. Further, she says the method facilitates employee training efforts because the software is user-friendly and has been used successfully by her staff, and expects that other postal workers will also accept it. Id. at 5-6.

#### D. The Weight Averaging Software

Witness Schenk explains that the weight averaging software was designed to provide an accurate, cost-effective way to calculate the postage and fees due for nonletter-size BRM; to calculate the conversion factors; and to automate the data collection and analysis aspects of the experiment. USPS-T-3 at 4-5. She notes that use of the software in the field requires a personal computer and a link to an electronic scale. Id., Appendix at 1.

Schenk's description of the software program indicates that it uses tables containing data on daily bulk weights, sample pieces, and sample sacks to calculate daily postage and fees and to calculate conversion factors. Other tables track historical conversion factors, current conversion factors, daily total activity, and the distribution of sample pieces for the most recent sample period. The software generates reports from the data in these tables, and another database (in the PERMIT system) stores information used by the program to determine when a sampling period begins and ends, current postal rates and fees, and certain site-specific settings. Id. Security measures coded into the weight averaging software are used to protect against data tampering. Id.

*Periodic sampling.* Schenk notes that the software is programmed to randomly select sample sacks each sample period. She says that the 20-sack target during the experiment (four per day based on a five-day week) evenly distributes the sampling workload across the sample week, and ensures that sample pieces from each day of the week are selected. *Id.*

### III. ASSESSMENT OF THE EXPERIMENTAL DATA COLLECTION EFFORT

#### A. Revenue Estimates

To evaluate the reliability of the revenue estimates obtained during the experiment, Schenk used an analytical procedure to determine the variability of the postage-per-pound conversion factor used in the weight averaging software program. She says the results of this analysis (presented in Tables 1 and 2 of her testimony) show that the estimated revenue during the experiment's data collection phase was well within the goal of  $\pm 1.5$  percent.<sup>3</sup> Schenk therefore concludes that the experimental sampling procedures provide more accuracy for the revenue estimates than originally specified for the experiment. Moreover, she says that this occurs at the cost of more sampling workload than is needed to obtain the desired precision level. Based on further analysis, Schenk concludes that a methodology in which only 10 sacks are sampled per accounting period would not only provide revenue precision levels better than the requisite  $\pm 1.5$  percent for each site, but also reduce the periodic cost associated with sampling. *Id.* at 6-7.

Schenk further recommends that because of seasonal variations in piece weight distributions, sampling be done no less frequently than every accounting period to

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<sup>3</sup> Schenk says they show that the estimated revenue during the data collection phase of the experiment was within 0.54 percent of the true revenue for Mailer 1, with 0.56 percent for Mailer 2, and within 0.75 percent for Mailer 3. USPS-T-3 at 5.

ensure that annual revenue estimates are within  $\pm 1.5$  percent of the true value. *Id.* at 7. She also recommends that sub-sampling within containers be avoided, due to the possibility of adding an element of nonrandomness to the process. *Id.*

#### B. Cost Estimates

Given her recommendation that the sampling methodology for the permanent classification be reduced from 20 sacks per accounting period to 10, witness Schenk presents two sets of estimates of the cost of counting, rating and billing nonletter-size BRM. These estimates are based on two sources. One is the data collected on each aspect of the daily and monthly workload described by witness Shields; the other includes the special cost studies conducted at each experimental site.

Schenk says there are three sources of workload and costs associated with rating and billing nonletter-size BRM under the weight averaging method. These include daily bulk weighing; daily billing and accounting; and periodic sampling. *Id.* at 8. She categorizes the daily bulk weighing workload as volume variable; daily billing and accounting workload as not volume variable; and sampling as a function of variation in piece weights, and therefore a fixed cost per accounting period. *Id.* at 9. Accordingly, her model includes two costs: a per-piece cost associated with daily bulk weighing and rating workload, and a fixed cost associated with billing, accounting, and periodic sampling. *Id.* at 10.

Based on the methodology and assumptions described in her testimony, Schenk estimates that costs for the weight averaging procedure using the recommended 10-sack sample are \$0.0055 for daily bulk weighing and \$464.63 per accounting period for monthly accounting and sampling. *Id.* at 13. The following table compares these costs with those originally estimated in Docket No. MC97-1.

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**Table 2**

	Daily Bulk Weighing Costs	Accounting and Sampling Costs (per accounting period)
Experiment (MC97-1)	\$0.0055	\$690.45 (20 sacks)
Permanent (MC99-2)	\$0.0055	\$464.63 (10 sacks)

Source: USPS-T-3 at 13 (Docket No. MC99-2)

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**C. Market Research**

In addition to testing weight averaging and reverse manifesting in the field, the Service commissioned market research to determine potential interest in the two optional methods and the attractiveness of various fees. Witness Ellard describes this effort as “a carefully planned and executed search among prospects who might be likely to take advantage of the proposed fees,” rather than a statistical study, an experimental analysis, an econometric study or a computer analysis. USPS-T-2 at 2-3.

Ellard's testimony indicates that the study design used information supplied by the Postal Service to identify nonhousehold customers who might be in a position to take advantage of the proposed fees. *Id.* at 2. *Id.* at 3-5. It also states that 21 respondents completed the process, which entailed an initial contact with each of the prospects identified from available sources; distribution of an information packet to prospects; and a follow-up call and letter. Ten of the 21 respondents said they expected to take advantage of the proposed fees.

Ellard says that these 10 respondents (at 11 sites) represent 15.8 million pieces of mail annually, and are in five industries (film processing, insurance, market research,

retail chains, and state disability agencies). Of these, he concludes that film processors comprise the group that will furnish the greatest volume of eligible BRM under the proposed fees. *Id.* at 8. Ellard further states that all 10 respondents expected to use the weight averaging method, and none were interested in reverse manifesting. In addition, he says none of the 10 potential users indicated any intention of converting non-BRM pieces to BRM to take advantage of this classification. *Id.*

#### D. Conclusions

*Reverse manifesting.* Witness Kiefer says that the reverse manifesting experiment did not live up to Service's expectations. He attributes this failure to the reverse manifesting's inability to consistently estimate revenue within the targeted precision level,<sup>4</sup> and its withdrawal from the experiment following acquisition by another film processing company that was participating in the weight averaging experiment. Kiefer says that given these developments and the fact that witness Ellard's market research was unable to discern any interest in the method, the Service decided against seeking permanent status for reverse manifesting. USPS-T-4 at 6-7.

*Weight averaging.* On the other hand, witness Kiefer says the weight averaging experiment not only met the Service's goals, but also refined the understanding of appropriate sampling standards and of costs. He says these refinements led to the Service's decision to reduce the number of pieces sampled and to eliminate the set up fee. In particular, Kiefer says that Schenk's analysis shows that the Service can meet its goal of  $\pm 1.5$  percent postage due accuracy by sampling only about half as many pieces. He notes that since sampling is a major cost component, this produces significant cost savings. *Id.* at 11-12.

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<sup>4</sup> This target was  $\pm 1.5$  percent of annual revenue, as with weight averaging.

Kiefer also says Schenk's observations confirm that bulk weight costs are the only type (in the weight averaging method) that have a significant volume variable component, and that accounting and sampling are largely unaffected by BRM volume. Thus, he says Schenk's results show no compelling reason to treat setup costs differently than for other postal services. *Id.* at 12-13. Kiefer cites several other factors in support of eliminating the fee. First, he points out several distinctions between the experiment and the permanent classification that affect setup costs. He notes, for example, that the Service "will be beyond the inefficient and costly learning process" entailed in the experiment, and expects to be able to treat the new classification in a manner similar to the way it treats the typical mailing permit or advanced deposit account. *Id.* at 19.

Kiefer also says the Service expects setup costs for a permanent weight averaging classification to be substantially lower than in the experiment, similar to the administrative costs associated with qualifying mail or mailers for other services, which are now treated as overhead or institutional costs. Moreover, he says that the Service's initial decision to charge a setup fee during the experiment was based on preliminary indications that problems the reverse manifesting site was having in reaching its target level of precision might also occur at the weight averaging sites. However, he says experience with setting up weight averaging has allayed this concern. Therefore, he says the Service does not anticipate incurring any extraordinary setup expenses, and finds no basis for treating these costs differently than they are treated for other classifications. Finally, Kiefer says there is now considerably less uncertainty surrounding weight averaging costs, so imposing a setup fee to ensure that costs are adequately covered is no longer considered necessary. *Id.* at 19-20.

#### IV. PROPOSAL

##### A. Classification and Fees

Based on Schenk's monthly sampling and per-piece accounting cost estimates (of \$0.0055 per piece and \$503.35 per month) and Ellard's market research, Kiefer says the Service proposes a permanent weight averaging classification with a service fee (per returned piece) of one cent and a monthly sampling/accounting fee of \$600. *Id.* at 13. He notes that recipients must also pay applicable First-Class or Priority Mail postage on each piece of eligible BRM, an annual permit fee (currently \$100) and maintain an advance deposit account (at a cost of \$300 annually). *Id.* at 9. Kiefer says these fees "more than adequately cover the attributable costs of counting and rating mail using the weight averaging methodology and make a reasonable contribution toward institutional costs." *Id.* at 16.

In terms of the potential savings to the recipient, Kiefer says the Service estimates that any customer receiving at least 103,000 pieces of nonletter-size BRM per year will save money by using the weight averaging method. Moreover, he says these savings increase as volume increases. However, he confirms that the Service is not proposing a specific minimum volume. *Id.* at 17.

*Impact on revenue, costs, other mail classes, and other postal services.* Kiefer notes that witness Ellard reports that a market research survey identified ten customers receiving large amounts of nonletter-size BRM who have expressed an interest in the new classification and fees. *Id.* at 20. He presents an exhibit showing the estimated revenue and cost impacts under several scenarios, including one that assumes that all of the mail identified in Ellard's study opted for the new accounting method. If that occurred, Kiefer says the Service's revenues would decline by approximately \$1.03 million, but would save the Postal Service about \$1.13 million in costs in comparison to



manually accounting for this mail. He also notes that regardless of the amount of offset, the revenue impact of the new classification is a small part of the Service's revenue requirement. *Id.* at 20-21.

Kiefer also anticipates that any impact of the new classification on other mail classes will be negligible. He attributes this, in part, to the fact that all BRM travels as First-Class Mail or Priority Mail, and the new weight averaging classification will not change this requirement. He also notes that the market research did not uncover any significant mailer interest in converting non-BRM mail to BRM to take advantage of the new fee structure. *Id.* at 23.

## B. Consistency with Statutory Criteria

### 1. Classification criteria

Witness Kiefer evaluates the Service's proposal in terms of the factors enumerated in section § 3623(c), and finds that it is consistent with those that are applicable. In line with standard practice, he treats the first factor, which requires the establishment and maintenance of a fair and equitable classification system, as a comprehensive concern, and discusses it after assessing the other factors. (39 U.S.C. § 3623(c)(1) — "fairness and equity.") Kiefer says that the fourth factor, concerning the importance of offering classifications that do not require an extremely high degree of reliability and speed of delivery, does not apply. (39 U.S.C. § 3623(c)(4).) In addition, he does not invoke the sixth factor, which allows for recognition of criteria not specifically enumerated (39 U.S.C. § 3623(c)(6) — "other factors".)

*Relative value and special classifications.* Kiefer discusses the second factor, which concerns the relative value to the people of the kinds of mail matter entered into the postal system, in conjunction with the fifth factor. The latter requires consideration

of the desirability of special classifications from the viewpoint of both the Postal Service and the user. (39 U.S.C. § 3623(c)(2) — “relative value” and 39 U.S.C. § 3623(c)(5) — “special classifications.”) Kiefer says the new classification offers recipients of nonletter-size BRM the opportunity to pay an accounting fee that is much more in line with related accounting costs than the otherwise applicable 8-cent per-piece service fee, and that the cost savings and the lower fees make the weight averaging classification desirable to both the Service and BRM recipients. He also says weight averaged fees for BRM offer valuable advantages to both businesses and their clients who send them nonletter-size BRM, while reducing the costs of this service. Kiefer further maintains that BRM is generally more cost-effective than prepaid postage envelopes, and says this is especially true in the case of nonletter-size BRM, which often varies in weight. *Id.* at 23-24.

*Reliability and speed.* The third factor requires consideration of the importance of providing classifications that require an extremely high degree of reliability and speed of delivery (39 U.S.C. §§ 3623(c)(3)). Kiefer states that prompt turnaround of customer orders is of obvious business importance. *Id.* at 24. He asserts that by keeping down the cost of mailing nonletter-size BRM, the proposal will maintain the practical availability of a speedy delivery option for businesses. Moreover, he notes that the time saved by using weight averaging should also allow nonletter-size BRM recipients to receive their mail as expeditiously as possible. *Id.* at 24-25.

*Fairness and equity.* Kiefer concludes that the proposal reflects a balanced consideration of all relevant criteria. In particular, he says it meets the needs of customers by providing a relatively low-cost option for receiving BRM. It also compensates the Service for activities it undertakes in counting and rating this BRM, without adversely affecting the public, businesses, or other mail classes. He therefore concludes that the proposal is fair and equitable. *Id.* at 25.

## 2. Pricing criteria

Kiefer also addresses the proposal's consistency with the statutory pricing criteria in 39 U.S.C. § 3622(b)(1)-(9). As with the classification criteria, this set of factors directs attention to the establishment and maintenance of a fair and equitable schedule (§ 3622(b)(1) — fairness and equity). Kiefer again discusses this consideration after his assessment of the proposal's consistency with other factors. He also concludes that two of the pricing factors are not relevant. These include criterion 6 — the degree of mailer preparation and its effect upon reducing costs — and criterion 8 — transfer of information normally considered to be of scientific, educational, or cultural content. 39 U.S.C. §§ 3622(b)(6) and (8), respectively. *Id.* at 28. In addition, Kiefer does not invoke criterion 9 which, like its counterpart in the classification criteria, allows consideration of unspecified "other factors." (39 U.S.C. § 3622(b)(9).)

*Value of service* (39 U.S.C. §§ 3622(b)(2)). In connection with value of service to senders and recipients, Kiefer generally reiterates points covered in his evaluation of the "desirability of special classifications" classification criteria. He notes, for example, that BRM offers a highly valuable service to its recipients and their customers, given its convenience and its cost-effectiveness, especially relative to prepaid envelopes. He also says the cost savings and the lower fees make the proposed classification desirable to both the Postal Service and the BRM recipients. *Id.* at 25-26.

*The cost floor* (39 U.S.C. § 3622(b)(3)). Kiefer says the proposed fees cover the costs witness Schenk has estimated are associated with this service, thus satisfying the requirement that each class of mail or type of mail service bear its direct and indirect attributable costs, plus a portion of all other reasonably assignable costs. *Id.* at 27.

*Effect of rate increases upon the general public and others, including enterprises that deliver mail other than letters* (39 U.S.C. § 3622(b)(4)). Kiefer states that the fee

structure is not expected to adversely affect the general public, business mailers, or postal competitors. *Id.*

*Available alternatives (39 U.S.C. § 3622(b)(5)).* With respect to alternative means of sending and receiving letters and other mail matter at reasonable costs, Kiefer acknowledges that there are a number of non-postal alternatives for transmitting communications and other matter commonly sent by letter-size BRM, such as toll-free telephone numbers, fax, e-mail, wire transfers, and credit cards. However, he says these alternatives do not appear relevant for most of the material currently or potentially sent as nonletter-size BRM, which includes exposed film, large documents, photographs, videos, and similar materials. He also says there are few, if any, alternatives that allow the mailer to send this kind of nonletter-size matter free of charge, and none offers a price similar to the postage and fees paid by the typical nonletter-size BRM piece. Thus, he concludes that offering this new BRM classification is expected to have negligible impact on available alternative means of sending nonletter-size BRM. *Id.*

*Simplicity (39 U.S.C. § 3622(b)(7)).* Criterion 7 calls for an evaluation of how the proposal affects simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services. Kiefer notes that a higher degree of complexity is not unusual for classification and fee schedules likely to be used by sophisticated businesses or other institutional customers. He identifies BRM as a service of this type, and says that in this instance, pursuit of simplicity needs to be balanced with recognition of cost savings and the goal of maintaining more complex fee relationships that are identifiable. He also says that bulk BRM recipients responsible for maintaining advance deposit accounts tend to be relatively sophisticated mailers and should not regard a new line in the BRM classification and fee schedule inordinately complex. *Id.* at 28.

*Fairness and equity.* Kiefer concludes that the Service's proposed nonletter-size BRM weight-averaging fees reflect a balanced consideration of all relevant criteria. He says that the proposal meets the needs of customers by providing a relatively low-cost option for receiving BRM, and compensates the Postal Service for the activities it undertakes in counting and rating this BRM, without adversely affecting the public, businesses, or other mail classes. He therefore concludes that the proposal is fair and equitable, in accordance with criterion 1.

## V. THE STIPULATION AND AGREEMENT

The settlement agreement consists of an introductory paragraph and two parts. The introductory paragraph notes, among other things, that the agreement was submitted pursuant to Commission rule 29. [39 U.S.C. § 3001.29]. Part I — Background, consists of two paragraphs identifying the filing date of the request, its designation as Docket No. MC99-2, and the witnesses whose testimony form the basis for the request. Part II — Terms and Conditions, consists of 10 numbered paragraphs. Paragraph No. 1 reiterates that the agreement represents a negotiated settlement of all issues raised by the Service's Docket No. MC99-2 request. Paragraph No. 2 addresses the evidentiary record. It states that the signatories agree that for purposes of this proceeding, the direct testimony of Postal Service witnesses Shields (USPS-T-1), Ellard (USPS-T-2), Schenk (USPS-T-3) and Kiefer (USPS-T-4) should be entered into the evidentiary record of this proceeding. It further states that the referenced testimony, along with the Docket No. MC99-2 interrogatory responses of witnesses Ellard and Schenk (as well as materials incorporated by reference therein), and the Postal Service's Docket No. MC99-2 request (and attachments), provide sufficient reasons and substantial evidence justifying a decision recommending the changes to the DMCS § 931 and corresponding DMCS Fee Schedule 931 sought by the Postal Service in this case. This paragraph also states that the signatories

stipulate to the entry into the record of any referenced material that has not already been entered.

Paragraph 3 states that on the basis of such record, for purposes of this proceeding only, the signatories stipulate that the DMCS and Fee Schedule changes set forth in the attachment to the agreement are in accordance with the policies of title 39, United States Code and, in particular, the criteria and factors of 39 U.S.C. §§ 3622 and 3623.

Paragraph No. 4 states that the agreement is offered in total and final settlement of this proceeding. It also states that the signatories agree that they will file no further pleadings or testimony with the Commission, except in three situations. One is if the Commission explicitly requests pleadings or testimony, or in reply to such filings. Another is if signatories file pleadings or testimony opposing pleadings or testimony filed in opposition to this agreement. The third is if the pleadings, testimony or comments are filed in support of this agreement.

Paragraph Nos. 5 through 8 and 10 address limits on the extent to which this agreement may be deemed to have binding effect. Paragraph No. 9 expresses the signatories' request for expeditious issuance of a Commission decision recommending adoption of the referenced DMCS and Fee Schedule provisions, including their request that the decision propose that the applicable classification and fees be made effective upon termination of the extension of the nonletter-size BRM weight averaging experiment implemented by the Governors as a consequence of Docket No. MC99-1.

*Parties' positions.* The agreement was signed by representatives of the Postal Service, the OCA, all other full participants in this proceeding (District Photo Inc., Mystic Color Lab, Seattle FilmWorks, Inc., Time Warner Inc., and York Photo Labs) and one limited participant (Douglas F. Carlson). No participant opposed the agreement.

## VI. FINDINGS AND CONCLUSIONS

Based on representations in the Service's motion for acceptance and an independent review of the record, the Commission finds that all participants have had an opportunity to participate in the settlement proceedings that led to the filing of the agreement. The Commission is also satisfied that all participants have had an adequate opportunity to comment on the appropriateness of the settlement as a resolution of the issues raised in this case, and to determine their position on its suitability as a basis for the Commission's decision.

Having made these determinations, the Commission has reviewed the evidentiary record pursuant to its statutory obligation under chapter 36 of title 39 of the US Code. This includes an independent review of the testimony of the four Postal Service witnesses, the material incorporated by reference therein, and interrogatory responses. This review leads to the conclusion that the proposed classification and fee changes meet the criteria of 39 U.S.C. § § 3622 and 3623 for the reasons enunciated by witness Kiefer, and conform to the policies of the Postal Reorganization Act. The Commission therefore recommends to the Governors of the Postal Service that the DMCS, including the attendant fee schedule, be amended as set forth in Appendices One and Two of the accompanying Recommended Decision.

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

Before Commissioners: Edward J. Gleiman, Chairman;  
W.H. "Trey" LeBlanc III, Vice Chairman;  
Dana B. Covington, Sr.; Ruth Y. Goldway;  
and George A. Omas

Classification and Fees For Weight-Averaged  
Nonletter-Size Business Reply Mail

Docket No. MC99-2,

RECOMMENDED DECISION

(Issued July 14, 1999)

The Commission, having considered the Stipulation and Agreement filed and entered into the record of this proceeding, has issued its Opinion thereon. Based on that Opinion, which is attached hereto and made a part hereof,

It is ordered:

1. The Stipulation and Agreement filed by the Postal Service is accepted.
2. That the Commission's Opinion and this Recommended Decision be transmitted to the Governors of the Postal Service and that the Governors thereby be advised that:
  - a. The proposed amendments to the fee schedule set forth in Appendix One are in accordance with the policies of title 39, United States Code and the factors set forth in § 3622(b) thereof; and they are hereby recommended to the Governors for approval;



b. The proposed amendments to the Domestic Mail Classification Schedule set forth in Appendix Two are in accordance with the policies of title 39 of the United States Code and the factors set forth in § 3623(c) thereof; and they are hereby recommended to the Governors for approval.

By the Commission.

(S E A L)

A handwritten signature in black ink, reading "Cyril J. Pittack". The signature is written in a cursive style with a large, stylized initial "C".

Cyril J. Pittack  
Acting Secretary

## RECOMMENDED CHANGES IN FEE SCHEDULE

The following changes represent the fee schedule recommendations of the Postal Rate Commission in response to the Postal Service's Docket No. MC99-2 Request. Proposed additions are underlined; deletions are stricken through.

**FEE SCHEDULE 931  
BUSINESS REPLY MAIL**

	<b>Fee</b>
Active business reply advance deposit account:	
Per piece	
Qualified	\$0.05
Nonletter-size, using weight averaging ( <del>experimental</del> )	\$0.01
Other	\$0.08
Payment of postage due charges if active business reply mail advance deposit account not used:	
Per piece	\$0.30
Annual License and Accounting Fees:	
Accounting Fee for Advance Deposit Account	\$300
Permit fee (with or without Advance Deposit Account)	\$100
Monthly Fees for customers using weight averaging for nonletter-size business reply	
<del>Nonletter size, using weight averaging (experimental)</del>	\$600

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~~1 Experimental per piece and monthly fees are applicable only to participants selected by the Postal Service for the nonletter size business reply mail experiment. The experimental fees expire February 29, 2000, or upon implementation of permanent fees for weight averaged nonletter-size business reply mail, whichever comes first.~~

## RECOMMENDED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

The following changes represent the changes to the Domestic Mail Classification Schedule recommended by the Postal Rate Commission in response to the Postal Service' Docket No. MC99-2 Request. Proposed additions are underlined and proposed deletions are stricken through.

**930 PAYMENT ALTERNATIVES**

**931 BUSINESS REPLY MAIL**

**931.1 Definitions**

931.11 Business reply mail is a service whereby business reply cards, envelopes, cartons and labels may be distributed by or for a business reply distributor for use by mailers for sending First-Class Mail without prepayment of postage to an address chosen by the distributor. A distributor is the holder of a business reply license.

931.12 A business reply mail piece is nonletter-size for purposes of this section if it meets addressing and other preparation requirements, but does not meet the machinability requirements specified by the Postal Service for mechanized or automated letter sortation.

~~This provision expires February 29, 2000, or upon implementation of permanent fees for nonletter-size business reply mail, whichever comes first.~~

**931.2 Description of Service**

~~931.24~~ The distributor guarantees payment on delivery of postage and fees for all returned business reply mail. Any distributor of business reply cards, envelopes, cartons and labels under any one license for return to several addresses guarantees to pay postage and fees on any returns refused by any such addressee.

**931.3 Requirements of the Mailer**

931.31 Business reply cards, envelopes, cartons and labels must be preaddressed and bear business reply markings.

931.32 Handwriting, typewriting or handstamping are not acceptable methods of preaddressing or marking business reply cards, envelopes, cartons, or labels.

**931.4 Fees**

931.41 The fees for business reply mail are set forth in Fee Schedule 931.

931.42 To qualify as an active business reply mail advance deposit trust account, the account must be used solely for business reply mail and contain sufficient postage and fees due for returned business reply mail.

931.43 An accounting fee as set forth in Fee Schedule 931 must be paid each year for each advance deposit business reply account at each facility where the mail is to be returned.

931.5 **[RESERVED]**

~~931.6~~ **Experimental Nonletter-Size Weight Averaging Fees**

~~931.61~~ **[RESERVED]**

~~931.62~~ A nonletter-size weight averaging monthly fee as set forth in Fee Schedule 931 must be paid each month during which the distributor's weight averaging account is active.

~~This fee applies to the (no more than) 10 advance deposit account holders which are selected by the Postal Service to participate in the weight averaging nonletter-size business reply mail experiment.~~

~~This provision expires February 29, 2000, or upon implementation of permanent fees for nonletter-size business reply mail, whichever comes first.~~

931.76 **Authorizations and Licenses**

931.761 In order to distribute business reply cards, envelopes, cartons or labels, the distributor must obtain a license or licenses from the Postal Service and pay the appropriate fee as set forth in Fee Schedule 931.

931.762 Except as provided in section 931.73, the license to distribute business reply cards, envelopes, cartons, or labels must be obtained at each office from which the mail is offered for delivery.

931.763 If the business reply mail is to be distributed from a central office to be returned to branches or dealers in other cities, one license obtained from the post office where the central office is located may be used to cover all business reply mail.

931.764 The license to mail business reply mail may be canceled for failure to pay business reply postage and fees when due, and for distributing business reply cards or envelopes that do not conform to prescribed form, style or size.

931.765 Authorization to pay ~~experimental~~ nonletter-size weight-averaging business reply mail fees as set forth in Fee Schedule 931 may be canceled for failure

of a business reply mail advance deposit trust account holder to meet the standards specified by the Postal Service for the weight averaging accounting method.

~~This provision expires February 29, 2000, or upon implementation of permanent fees for nonletter size business reply mail, whichever comes first.~~

**PARTICIPANTS AND COUNSEL**

*(Italicized boldface type indicates that participants signed the  
Stipulation and Agreement)*

***†Advertising Mail Marketing Association (AMMA)***

Ian D. Volner  
N. Frank Wiggins  
Heather L. McDowell

***†Brooklyn Union Gas Company (Brooklyn Union)***

Michael W. Hall

***†Douglas F. Carlson (Carlson)***

Douglas F. Carlson

***District Photo Inc. (District)***

William J. Olson  
John S. Miles  
Alan Woll  
John Callender

***†Keyspan Gas East Corporation (KeySpan Gas)***

Michael W. Hall

***†Long Island Power Authority (the Authority)***

Michael W. Hall

***Mystic Color Lab (Mystic)***

William J. Olson  
John S. Miles  
Alan Woll  
John Callender

***Office of the Consumer Advocate (OCA)***

Ted P. Geraden  
Kenneth E. Richardson

***†David B. Popkin (Popkin)***

David B. Popkin

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<sup>†</sup> Limited Participant



***Seattle Filmworks, Inc. (Seattle)***

William J. Olson  
John S. Miles  
Alan Woll  
John Callender

***Time Warner Inc. (Time Warner)***

John M. Burzio  
Timothy L. Keegan

***United States Postal Service (Postal Service)***

Daniel J. Foucheaux, Jr.  
Michael T. Tidwell

***York Photo Labs (York)***

William J. Olson  
John S. Miles  
Alan Woll  
John Callender